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Release Date 3/26/03

SERENITY 67
FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001

<u>Independent Auditor's Reports:</u>	<u>Page</u>
Independent Auditor's Report	1
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on An Audit of Financial Statements Performed in Accordance with Government Auditing Standards	2-3
<u>Financial Statements:</u>	
Statements of Financial Position	4
Statements of Activities	5
Statements of Cash Flows	6
Statements of Functional Expenses	7-8
Notes to Financial Statements	9-10

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Serenity 67

I have audited the accompanying statement of financial position of Serenity 67 (a non-profit organization) as of June 30, 2002 and 2001, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Serenity 67 as of June 30, 2002 and 2001, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated March 8, 2003, on my consideration of Serenity 67's compliance with certain provisions of laws, regulations, contracts, and grants, and on internal control over financial reporting.



Baton Rouge, Louisiana
March 8, 2003

ROY HEBERT
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
Serenity 67

I have audited the financial statements of Serenity 67 (a nonprofit organization) as of and for the years ended June 30, 2002, and have issued my report thereon dated March 8, 2003. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Serenity 67's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of noncompliance, which I have reported to management of Serenity 67 in a separate letter dated March 8, 2003.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Serenity 67's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statement and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting, which I have reported to management of Serenity 67 in a separate letter dated March 8, 2003.

This report is intended for the information of the board of directors, management, and the Legislative Auditor. However, this report is a matter of public record, and its distribution is not limited.

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

Baton Rouge, Louisiana
March 8, 2003

SERENITY 67
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2002, AND 2001

ASSETS	<u>2002</u>	<u>2001</u>
Current assets		
Cash in bank	\$ 1,956	\$ 8,103
Grants receivable	58,557	3,540
Prepaid rent	700	700
Total current assets	<u>61,213</u>	<u>12,343</u>
Property and equipment		
Office furniture and fixtures	17,101	17,101
Office machinery and equipment	72,711	72,711
Vehicles	52,990	48,636
Leasehold improvements	8,507	8,507
	<u>151,309</u>	<u>146,955</u>
Less accumulated depreciation and amortization	<u>(113,421)</u>	<u>(93,413)</u>
Total property and equipment	<u>37,888</u>	<u>53,542</u>
Other assets	<u>5,000</u>	<u>3,000</u>
TOTAL ASSETS	<u>\$ 104,101</u>	<u>\$ 68,884</u>
 LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 9,250	\$ 4,141
Accrued payroll	6,609	6,539
Accrued and withheld payroll taxes	18,182	1,936
Bank overdrafts	5,986	0
Other payroll withholding	898	933
Total current liabilities	<u>40,925</u>	<u>13,549</u>
Net assets		
Unrestricted	<u>63,176</u>	<u>55,335</u>
Total Liabilities and Net Assets	<u>\$ 104,101</u>	<u>\$ 68,884</u>

The accompanying notes are an integral part of these to financial statements.

SERENITY 67
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2002, AND 2001

	<u>2002</u>	<u>2001</u>
SUPPORT AND REVENUE		
Support:		
Contributions	\$ 2,040	\$ 13,055
Revenue:		
Grant funds	365,878	369,097
Interest income	55	460
Miscellaneous income	42,276	7,516
Total revenue	<u>408,209</u>	<u>377,073</u>
Total support and revenue	<u>410,249</u>	<u>390,128</u>
EXPENSES		
Program services		
Drug-free and tutorial services	243,098	116,266
Elderly and youth services	125,115	302,176
	<u>368,213</u>	<u>418,442</u>
Supporting services		
Management and general	34,195	18,493
Total expenses	<u>402,408</u>	<u>436,935</u>
Change in net assets	<u>7,841</u>	<u>(46,807)</u>
Net assets at beginning of year	<u>55,335</u>	<u>102,142</u>
Net assets at end of year	<u>\$ 63,176</u>	<u>\$ 55,335</u>

The accompanying notes are an integral part of these financial statements.

SERENITY 67
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities		
Change in net assets	\$ 7,841	\$ (46,807)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	19,790	22,366
Amortization of intangible assets	218	218
(Increase) decrease in grants receivable	(55,018)	7,437
(Increase) decrease in prepaid assets	(2,000)	3,700
Increase (decrease) in accounts payable	5,109	731
Increase (decrease) in other payroll withholding	7,944	(4,113)
Increase (decrease) in payroll taxes accrued and withheld	8,337	(487)
Total adjustments	<u>(15,620)</u>	<u>29,852</u>
Net cash provided (used) by operating activities	<u>(7,779)</u>	<u>(16,955)</u>
Cash flows from investing activities		
Purchases of fixed assets	<u>(4,354)</u>	<u>(3,314)</u>
Net cash provided (used) by investing activities	<u>(4,354)</u>	<u>(3,314)</u>
Net increase (decrease) in cash and equivalents	(12,133)	(20,269)
Cash and equivalents at beginning of the year	<u>8,103</u>	<u>28,372</u>
Cash and equivalents at end of the year	<u>\$ (4,030)</u>	<u>\$ 8,103</u>
 <u>Supplemental Disclosures</u>		
Cash Paid During the Year for:		
Interest	<u>\$ 2,431</u>	<u>\$ 1,159</u>

The accompanying notes are an integral part of these financial statement.

SERENITY 67
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2002

	Drug-free and Tutorial Youth Services	Elderly and Youth Services	Total Program Services	Management and General	Totals
Accounting	\$ 15,903	\$ 0	\$ 15,903	\$ 0	\$ 15,903
Advertising	1,250	0	1,250	0	1,250
Amortization	0	0	0	218	218
Auto expense	1,782	7,095	8,877	487	9,364
Bank charges	734	283	1,017	389	1,406
Building maintenance	10,279	636	10,915	(250)	10,665
Contract labor	18,577	7,023	25,600	412	26,012
Contributions	0	0	0	0	0
Depreciation	0	0	0	19,790	19,790
Food and snacks	3,435	2,142	5,577	0	5,577
Garbage pick-up	955	108	1,063	0	1,063
Grant assistance	1,000	0	1,000	0	1,000
Insurance	7,306	8,072	15,378	0	15,378
Licenses	0	600	600	0	600
Miscellaneous	4,444	1,655	6,100	2,321	8,420
Payroll taxes	11,843	4,212	16,055	520	16,575
Pest control	300	210	510	0	510
Postage	221	16	238	0	238
Rent	8,175	24,025	32,200	0	32,200
Repairs	11,692	3,515	15,207	535	15,742
Salaries	121,897	44,762	166,659	6,692	173,351
Security	68	542	609	0	609
Supplies	14,040	6,191	20,232	1,042	21,273
Telephone	5,762	2,814	8,577	2,041	10,618
Travel and conferences	0	4,336	4,336	0	4,336
Utilities	3,433	6,877	10,310	0	10,310
	<u>\$ 243,098</u>	<u>\$ 125,115</u>	<u>\$ 368,213</u>	<u>\$ 34,195</u>	<u>\$ 402,408</u>

The accompanying notes are an integral part of these financial statements.

SERENITY 67
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2001

	Drug-free and Tutorial Youth Services	Elderly and Youth Services	Total Program Services	Management and General	Totals
Accounting	\$ 3,267	\$ 7,502	10,769	\$ 3,690	\$ 14,459
Advertising	150	332	482	336	818
Amortization	218	0	218	0	218
Auto expense	0	4,603	4,603	909	5,512
Bank charges	95	233	328	0	328
Building maintenance	8,916	0	8,916	0	8,916
Contract labor	13,176	8,073	21,249	661	21,910
Contributions	190	0	190	0	190
Depreciation	22,365	0	22,365	0	22,365
Food and snacks	2,173	5,041	7,214	0	7,214
Garbage pick-up	572	0	572	0	572
Grant assistance	0	1,500	1,500	0	1,500
Insurance	3,072	4,961	8,033	1,470	9,503
Licenses	630	0	630	0	630
Miscellaneous	182	2,881	3,063	2,357	5,420
Payroll taxes	2,637	19,014	21,651	243	21,894
Pest control	1,039	137	1,176	0	1,176
Postage	333	0	333	0	333
Rent	9,600	22,800	32,400	0	32,400
Repairs	4,503	38	4,541	0	4,541
Salaries	27,887	211,852	239,739	2,678	242,417
Security	148	566	714	0	714
Supplies	7,358	1,948	9,306	3,204	12,510
Telephone	2,115	3,600	5,715	2,945	8,660
Travel and conferences	0	1,000	1,000	0	1,000
Utilities	5,640	6,095	11,735	0	11,735
	<u>\$ 116,266</u>	<u>\$ 302,176</u>	<u>\$ 418,442</u>	<u>\$ 18,493</u>	<u>\$ 436,935</u>

The accompanying notes are an integral part of these financial statements.

SERENITY 67
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2002 AND 2001

NOTE 1: ORGANIZATION

Serenity 67 was organized in Louisiana in 1993 as a non-profit corporation for the purpose of providing human services to the residents of Louisiana House of Representatives District 67 and surrounding areas. Services provided include medical transportation services for the elderly, a day program for senior citizens, camps for youth, tutoring, self-esteem programs, personal hygiene programs, and drug abuse prevention/awareness counseling for the youth of the District.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

Serenity 67 follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

Leasehold Improvements

Leasehold improvements are carried at cost. Amortization is computed using the straight-line method over the estimated useful lives of the respective improvements. When improvements are abandoned or otherwise disposed of, the cost and related accumulated amortization are removed from the accounts and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to expense as incurred.

Income Taxes

Income taxes are not provided for in the financial statements since the Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. In addition, the organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 501(9) of the code.

SERENITY 67
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2002 AND 2001

Revenue Recognition

Contributions are recorded when received unless susceptible to accrual. Grant revenues are recognized when program expenditures are incurred in accordance with program guidelines. Such revenue is subject to review by the funding agency and may result in disallowance in subsequent periods.

Functional Expenses

Functional expenses have been allocated between program services and supporting services based on an analysis of personnel time and space utilized for the related activities.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 3: BUSINESS AND CREDIT CONCENTRATIONS

Serenity 67's primary sources of revenue are from grants administered and/or funded by the State of Louisiana. During the years presented, approximately 89% and 94% of the Organization's revenues were derived from these sources. All of the amounts listed as grants receivable are from these grants.

The Organization's clients, during the year presented, all reside within Louisiana House of Representatives District 67.

NOTE 4: OPERATING LEASES

The organization has two noncancelable operating leases for facilities its occupies.

The first lease is for the period July 1, 2000, through July 30, 2001. The lease provides for a one-year renewal at the lessee's option. The organization has exercised the option to renew. Rental expense for this lease consisted of \$12,000 for the years ended June 30, 2002 and 2001.

The second lease is for the period July 1, 2000, through June 30, 2001. The lease provides for a one year renewal the lessee's option. The organization exercised the option to renew. Rental expense for this lease consisted of \$20,400 for the years ended June 30, 2002 and 2001.

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To the Senior Management and
the Board of Directors
Serenity 67

In planning and performing my audit of the financial statements of Serenity 67 for the year ended June 30, 2002, I considered the organization's internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure.

My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control and its operation that I consider to be material weaknesses as defined above.

However, during my audit, I became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes my comments and suggestions concerning those matters. (I previously reported on the organization's internal control structure in my report dated March 8, 2003.) This letter does not affect my report dated March 8, 2003, on the financial statements of Serenity 67. My comments are summarized as follows:

General Corporate Administration

Improve Storage Safety of Accounting Records

To prevent the loss of accounting records, the organization should adopt a policy of storing basic source documents (such as the general ledger, detail property records, detail accounts receivable records, etc.) in fireproof locations. Such a policy should be adhered to by all locations because the reconstruction of these records would be costly and time consuming.

Keep Board Minutes in a Safe Place

During my review of the minutes of the meetings of the Board of Directors, the minutes custodian had difficulty finding the minutes. All minutes should be kept in a safe, fireproof place since they are an important part of the organization's corporate records, which should be retained permanently.

Adopt a Records Storage and Retrieval System

Even in this age of computerized data, significant volumes of paper documents and records are generated. During my audit I noticed that accounting records frequently could not be located when needed. The causes of the problem appeared to be (a) lack of a clearly specified system for filing records, (b) failure of those who removed records from the files to indicate who took the record, (c) failure to return the record to the files or misfiling it when it was returned, and (d) lack of specific policies for removing prior year records from the files to a designated storage space. The result was that employees spent nonproductive time searching for needed documents. This condition could also present problems when documents are needed in support of tax returns and other reports subject to audit by me or other governmental agencies. I recommend that the following steps be taken:

- Decide on a systematic manner of filing documents, for example, prenumbered sales invoices and receiving reports, consecutively by number, vendor bills alphabetically by vendor name, journal entries by month, and so on. Describe the system in the accounting manual or post a description on the filing cabinets or in the storage room so that employees will know how to find and refile documents.

- Institute use of “sign-out” cards to be filled out when a document is removed, showing who took the record. The card should be placed in the file in place of the removed document.

- Establish a policy specifying which records should be retained permanently and which records should be kept only for a given period before being destroyed and how long that period should be. (It might differ for different types of documents.) Also, decide on when records should be removed from more accessible files to other storage areas. For example, some companies keep the current and prior year records in the accounting department or in storage rooms on the organization’s premises and store older records in off-premises warehouses. Assign personnel the responsibility to periodically clean out the files in accordance with the established policy.

File Accounting Records in an Orderly Manner

The organization’s accounting records and related data are not maintained in an orderly filing manner. Orderly filing should be maintained to insure proper control over all supporting documentation and invoices evidencing revenues, expenditures, etc.

Develop an Accounting Procedures Manual—Benefits

I recommend that management establish a standard accounting and operating procedures manual outlining policies to be followed. The preparation and maintenance of written standard procedures is very useful to do the following:

- Establish consistent corporate practices.
- Fix accounting and bookkeeping responsibilities.
- Reduce the likelihood of coding errors and assist in the preparation of timely and accurate monthly financial statements.
- Aid in review by management for adherence to Company policies.
- Aid in exchange of management ideas.
- Provide the organization with a source of information that will not be lost if key personnel leave.

- Aid in the training of new employees, especially in the event of an untimely resignation of key accounting staff.

The manual should include, along with a chart of accounts, detailed explanations of account content, appropriate descriptions of all accounting procedures and routines, and definitions of job authority and responsibility.

Management should periodically review each division's compliance with standard procedures.

I recognize that the preparation of the manual will be a very time consuming task so that implementation may take several years. However, I believe that action should be taken by the organization to establish priorities and a timetable for the completion of the manual.

Organizational Management

During the year ended June 30, 2002, Serenity 67 experienced frequent turnover in its executive director position. Not only is this disruptive to the functioning of the organization, it hampers the entity's ability to comply with time restrictions placed on it for reporting to funders and other regulatory bodies.

The benefits of consistent management, management styles, and talents cannot be overemphasized in the proper operation of an organization.

Organizational Structure

The size of Serenity 67's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. The situation dictates that the Board of Directors remain actively involved in the financial affairs of the organization to provide oversight and independent review functions.

Compliance with Louisiana Revised Statutes

Louisiana Revised Statutes require that Serenity 67 complete and deliver copies of its annual audit within six months of the end of the fiscal year. The organization was late in completing and delivering their audit for the year ended June 30, 2002.

Compliance with Contractual Requirements of Funding Sources

While testing Serenity 67's compliance with various requirements of its grantor agencies, I noted that the organization did not comply with two program-related requirements of one grantor. The contract called for monthly reporting of program expenditures by a specified date. While all reports were filed, not all were not filed in a timely manner.

The same grantor required the use of a separate bank account for the deposit and expenditure of the grant funds and also prohibited the co-mingling of its grant funds with other organization funds. A separate bank account was maintained and used for grant funds, however, the funds were co-mingled with other funds.

In addition, it was noted that the charging of expenses to various grant sources were not monitored on a monthly basis for compliance with the approved budgets or grant application. This did not ultimately result in violations of the grant agreements, but could have done so.

The comments regarding organization structure and compliance with contractual requirements of funding sources are identical to the ones made upon my completion of the audit for the year ended June 30, 2001, and were the only comments made in connection with that audit.

I wish to thank the Executive Director and her staff for their assistance during my audit.

This report is intended solely for the information and use of the Board of Directors, management, and the Legislative Auditor.

I will review the status of these comments during my next audit engagement. I will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.



Baton Rouge, Louisiana

March 8, 2003



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March 18, 2003

Mr. Grover Austin, CPA
First Assistant Legislative Auditor
1600 North Third Street
P.O. Box 94397
Baton rouge, LA 70804-9397

Dear Mr. Austin:

Regarding the auditor's comments in his management letter issued in connection with the audit for the year ended June 30, 2002, management of Serenity 67 Community Center offers the following comments:

General Corporate Administration

Serenity 67 Community Center's administrative office relocated to 1632 Thomas Delpit Drive in Baton Rouge, Louisiana. During the course of relocating from one building to another, the accounting records were misfiled, not lost. The building located 1632 Thomas Delpit Drive is equipped with a fireproof room, where all files and important documents are filed in fireproof cabinets.

Board Minutes

All minutes of the Board of Directors are filed in the aforementioned fireproof room.

Records Storage and Retrieval System

Records can only be checked out by approved personnel, i.e., the Executive Director, the Administrative Assistant and the Bookkeeper. A "sign-out" card is posted on the door facing the inside of the fireproof room, and is filled out when a document is removed, showing who took the record, what record was taken and the time of removal and return of the document.

Louisiana law requires records to be held for five (5) years. A policy was established to that effect. Current records are kept in a storage room on the premises of the administrative office. Files are purged periodically as established in the policy.

Filing Accounting Records

All accounting records are filed in an orderly manner.

Page 2

Grover Austin, CPA

March 28, 2003

Organizational Management

A turnover in management personnel contributed to the situation regarding the charging of expenses to grant sources. New procedures are being implemented whereby the monthly grant expenditures reports are compared on a monthly basis to the grant budgets.

Organizational Structure

A new Executive Director has been hired with a two-year contract. She possesses a college degree from U.S.L. in Office Administration. Also, she has twenty years of experience of working in the office atmosphere.

The Board of Directors of Serenity 67 Community Center will continue to remain actively involved in the financial affairs of the organization to provide some oversight and independent review functions.

Compliance with Louisiana Revised Statutes

Although the organization was late in completing and delivering the audit for the year ended June 30, 2002, because of personnel turnover, management of Serenity 67 Community Center will continue to strive to comply with the Louisiana Revised Statutes by submitting their audits in a timely manner. Please note that the organization has been in existence for 10 years and has never been late in submitting the audit.


Compliance with Contractual Requirements of Funding Sources

As previously stated, a turnover in management personnel also contributed to the reports not being filed in a timely manner.

Regarding the co-mingling of funds, the organization can only function in a businesslike fashion by borrowing money to fund the expenditures from July 1 through the date of receipt of the grantor funds. At that point in time, there are "other" funds in the bank account and they are used to pay expenses and payroll until the other funds are withdrawn. However, all grantors funds are kept in separate bank accounts.

These comments and actions are responsive to the auditor's management letter points.

Sincerely,



Shelia G. Noah
Executive Director